

DRAFT

Council Policy Modifications

Realignment of Financial Policy
within the Audit Committee

September 29, 2014

Background

Earlier this year, the Council held a Policy Workshop. Two major objectives emerged: (1) a streamlined set of top priorities was established and (2) policy modifications to improve organizational efficiency and effectiveness were directed.

Top Priorities

Economic Development,
Downtown
Revitalization, and
Planning

Infrastructure Financing

Ralston Corridor
Improvements

Park & Recreation
Improvements

Policy Modifications

- Update protocols to improve Council effectiveness, as well the effectiveness of their appointed boards and commissions
- Pursuit changes to policies that would address impediments to providing excellent service

Historical Perspective

1979

- Loosely modeled after audit committees of publicly traded companies, a Finance Commission is established
- Commission to serve as audit committee with quasi-independence
- Self selected members are ratification by Council
- Determine own work plan

2006

- GFOA Best Practice recommends audit committee of governing board
- Accounting oversight functions transferred from Finance Commission
- Audit Committee expands role to policy setting
- Finance Commission role narrowed
 - (1) a review of the City's annual budget and
 - (2) to work collaboratively with staff on special projects as assigned
 - Council changed from self select to appoint

2009

- Council experiments with sub-committees beginning with economic development and infrastructure
- Major financial decisions made and directed by City Council or their sub-committees
- City Council and Audit Committee financial role further enhanced as Finance Commission role lessened

Policy Modification and Need for Realignment

Directive

Directive to improve effectiveness of appointed boards and commissions resulted in a review of the Audit Committee and Finance Commission's role in developing financial policy. That review identified challenges and opportunities with the current structure and the need for realignment.

Modification

- Finance Commission is an advisory body which has the appearance of a regulatory entity
- State law has negatively impacted access to quality financial advice
- Audit Committee is a regulatory body, serves as fiduciary and function can not be delegated
- Audit Committee comprises a minority of Council and follows the success of subcommittees
- Realignment of financial policy within Audit Committee scope consistent with directive

Challenges & Opportunities

Challenges

- Growing scope conflict
 - Two bodies with overlapping duties
 - Audit Committee must consider major budgetary policy
 - Finance Commission unable to recommend budgetary policy in financial vacuum
 - Audit Committee, as regulatory body, supplants Finance Commission role
- Public misinformed about purpose
- Efficacy of special projects uncertain
- Availability of commissioners limited

Opportunities

- Realignment of the City's annual budget review can be accomplished without loss in quality
- Work collaboration with staff on special projects improved due to ready access to committee members and ability to receive feedback from minority of Council
- Regulatory role of Audit Committee improves fiduciary compliance and internal control
- Commissioner transition to advisors removes regulatory impediments which limit interest

Audit Committee and Finance Commission Survey Results

Staff recently performed a survey regarding the role of Finance Commissions and Audit Committees in San Mateo County

1. There's no strong support for Finance Commissions, with 12 of the 16 respondents saying they either have an Audit Committee or nothing at all.
2. There's more support for Audit Committee, with 7 of 16 respondents saying they have one. Audit Committees were filled with elected and/or appointed officials and their charters are more limited than Finance Commissions.
3. None of the respondents have both, as in Belmont.

Audit Committee Realignment



Recommendation

Expanded Charter

- Pro
 - Improves financial fiduciary compliance
 - Enhances internal controls
 - Streamlines financial policy development
 - Encourages greater public engagement with decision makers
 - Resolves duplication and overlapping duties with appointed commission
 - Consistent with Council policy modifications to improve efficiency and effectiveness
- Con
 - Requires transition

No Change

- Pro
 - No action required
- Con
 - Avoids addressing underlying inherent conflicts
 - Creates confusion over responsibilities
 - Inefficient
 - Inconsistent or incompatible with Best Practices

Finance Commission Realignment



Recommendation

Expanded Charter

- Pro
 - Empowers Commissioners
- Con
 - Creates additional inherent conflicts
 - Uncertain benefit
 - Undermines the fiduciary responsibility of the Audit Committee and Council
 - Devalues role of elected City Treasurer
 - Adds to confusion over responsibilities
 - Inefficient and costly
 - Inconsistent or incompatible with Best Practices
 - Lack of Quorum unresolved

No Change

- Pro
 - No action required
- Con
 - Avoids addressing underlying inherent conflicts
 - Creates confusion over responsibilities
 - Limited responsibilities inefficient for Commission level body
 - Inconsistent or incompatible with Best Practices
 - Leads to low Commissioner morale and Council dissatisfaction
 - Ongoing meeting schedule conflicts; lack of quorum unresolved

Advisors

- Pro
 - Flexible; targeted; efficient
 - Quasi-independent
 - Positive attributes of Pre 2006 Finance Commission
 - Not difficult to implement
 - Initial appointment retained
 - Resolves inherent conflicts
 - Improve clarity; aligns responsibilities
 - Can report to City Treasurer, Finance Director or others
- Con
 - Requires transition

Next Steps

